

PREPARATION OF APPENDIX As TO GRANT AGREEMENTS FOR ENTERPRISE INVESTMENTS

Background

The project description in Appendix A is a key part of the legal agreement between USADF and its grantees. Appendix A sets out the mutual understanding between the parties on project objectives and performance. As such, the Appendix A should clearly articulate the project's objectives (goal, purpose, outputs, and activities) and the logical relationship between them, and establish measurable targets for the purpose, output, and activities. Appendix As that do not meet these standards create ambiguity that may become the source of disputes between USADF and the grantee.

One result of USADF's increased focus on funding enterprise activities is that in most cases, the goal and purpose statements of most projects are essentially the same in nature. For example:

- the goal of an enterprise expansion investment (EEI) or social investment (SI) will usually focus on improving standards of living for the poor;
- the goal of an enterprise development investment (EDI) will generally focus on increasing income and jobs for the poor;
- the purpose of an EEI or (SI) will generally be to increase the incomes of the client and its employees or members – and sometimes external actors such as out growers; and
- the purpose of an EDI is to prepare the grantee for expansion.

Conversely, the outputs and activities of a project will almost always be unique to each project – since they emerge from a specific set of facts and circumstances. Thus, determining outputs and activities will require a case-by- case analysis.

Common weaknesses in analyzing outputs and activities include: (1) defining the symptom of a problem as the root cause (constraint) of the problem and thus selecting a less than optimal set of activities to overcome the constraint; (2) identifying a constraint, but failing to include activities that address the constraint; (3) confusing activities with tasks or budget line items; and (4) presenting outputs without measurable targets. The definitions and examples in the matrix below are suggested as diagnostic tools for drawing out the interrelationships between problems to be addressed and the outputs and activities in projects.

Definitions

The following definitions are useful in presenting the analysis underlying outputs and activities.

Symptom – a circumstance a business finds itself in which indicates a problems exists and needs to be corrected. The symptom is not the root cause of the problem; it is the consequence of the problem. The symptom should appear in the background section of the Appendix A.

Constraint – the root cause of the symptom which must be eliminated. Once the constraint is removed, the symptom should disappear. Like the symptom, the constraint should be discussed in the background section of the Appendix A.

Activity – the action or cluster of actions that must be taken to remove the constraint. The description of activities should focus on (1) *what* must be done, (2) *who* will do it, (3) *how* it should be done; and (4) if timing is critical, *when* it should be done. Some actions are tasks that do not rise to the level of activities. Generally, a task will not result in the elimination of a constraint, although the task may be critical to the accomplishment of the activity. The following examples demonstrate the distinction between activities and tasks.

Activity	Task
“By the sixth month of the project, a consultant will complete a marketing study, which the company’s executive managers will draw on to develop a comprehensive marketing strategy by the end of the project.”	“Hire a consultant.”
“By the sixth month of the project, the accountant, with the assistance of a consultant, will changeover the manual payroll system to a computerized one”.	“Purchase a computerized payroll system”.

Output – the outcome of the activity. It describes the turnaround of the symptom and should have measurable indicators or targets.

Constraint-Activity-Output Matrix

This tool provides examples that highlight the interrelationships between symptoms, constraints, activities, and outputs by major output category. It is not a form for field work. The examples are drawn from projects presented for approval in Fiscal Year 2006, most of which were EDIs.

Output: Improved Management and Operational Capacity

Symptom	Constraint	Activity	Output Indicator
Employees are not paid in timely manner.	(a) Payroll done by hand (b) Payroll done by CEO's assistant	The accountant will implement a computerized payroll by the sixth month of the project.	Employees paid the 1 st and 3 rd Tuesday of every month.
Company is unable to buy enough inputs.	(a) Lack of working capital (b) Accounts receivable too high	By the 12 th project month the management team will have implemented a revolving credit facility and a payment collection policy.	(a) Inputs purchased equals inputs needed (b) accounts receivable reduced from 50% to 10% of sales by the 3 rd year.
Manager is unable to guide company's development.	(a) One manager (often the founder) doing too many tasks (b) Management lacks required skills (b) Employees' roles are confused	By the 6 th month of the project: (a) restructure and expand management team based on the organizational analysis of an expert; (b) train management team on operations, management techniques, etc.; and (c) recruit qualified board members and provide them board training.	(a) Founder spends 70% of her time on business development (or production management, etc.). (b) Management team works together with employees in their respective roles. (c) Board holds regular meetings where management decisions are reviewed.

Output: Improved Financial Controls

Symptom	Constraint	Activity	Output Indicator
Company is unaware of its financial position	(a) No regular financial reports; (b) Unqualified employee acting as accountant	By project month 6, a qualified staff accountant will implement a computer based financial management system and train appropriate staff in its use.	(a) Regular monthly and annual financial reports produced beginning the 3 rd month of the project. (b) Error rate in reports reduced by 50% during the first year.
Manager or Founder operates too independently and non-transparently	Manager has inadequate financial and management Skills.	(a) Restructure roles so that a qualified account manages the company's finances. (b) Implement adequate internal controls. (c) Attain annual independent audits (d) Add qualified board members and train them.	(a) Management decisions are recorded and reviewed by board (b) Accounting records are maintained and audited

Output: Improved Sales and Marketing Capacity

Symptom	Constraint	Activity	Output Indicator
(a) Declining sales (b) Low or declining market share	Lack of product diversity	(a) A consultant will analyze product line and identify opportunities for diversification. (b) A consultant will conduct market research and develop a marketing plan. (c) Manufacture and market product line based on new designs.	(a) Sales increase from x to y in years 1-5. (b) Market share increases from x to y by the end of the project.
Unable to access European markets	Product not compliant with EUREPGAP standards	(a) A consultant will develop a compliance strategy. (b) The project team will develop and deliver training for the out growers.	(a) Products obtain EUREPGAP certification and access Euro market (b) Products ready for EUREPGAP certification by project year 2.

Output: Improved Production Capacity

Symptom	Constraint	Activity	Output Indicator
Low yields	(a) Old equipment breaks down frequently (b) Poor production methods (c) Insufficient water at source	(a) Install improved pumps and piping (b) Recruit a consultant to analyze the cultivation process and recommend a water use plan; (c) Implement an irrigation plan based on the consultant's analysis of the cultivation process.	Yields increase from 2 tons to 4 tons per hectare.
(a) Low levels of production (b) Unfulfilled orders (c) High rate of accidents	(a) Input storage, processing, and packaging in same location (b) Production volume too great for facility (c) Production space too cramped	(a) Construct additional storage facility or processing facility. (b) Convert unused warehouse into processing center. (c) Develop and implement safety procedures.	(a) Production (or sales) increase from x to y in years 1-5. (b) Accidents per quarter decrease from 10 to 1 by the end of year 1. (c) Unfulfilled orders decrease from 20 to 0 by the end of the project.
Food spoils in warehouse	(a) Lack of refrigeration (b) Slow processing	(a) Acquire and use a refrigerated room for storage (b) Analyze process efficiency, with the assistance of a consultant (b) Train production foreman in food storage	Food spoiled during processing reduced from 50% to 1% by the end of the project.
High number of customer complaints regarding delivery	Time between packaging and delivery is too long	(a) With the assistance of a consultant, develop and implement a distribution plan which includes alternative routes and expanded fleet of vehicles. (b) Train the production manager on delivery processes.	Average time between finished packaging and reaching customer reduced from 2 months to 2 weeks by the end of the project.
Inadequate volume of product	(a) Number of producers too small (b) Insufficient amount of or outdated equipment (c) Poor production methods	(a) Train additional farmers, beekeepers, etc. (a) Manage revolving fund to provide producer inputs and equipment (c) Train producers on improved methodology.	Amount of production increases from x to y in years 1-5.